

**ABSTRACT**

An debit-card system for accessing funds in a participants Flexible Spending Account is provided. A method is provided that substantially eliminates the paperwork component of claims processing, and assures substantial compliance with the IRS rules. The debit-card system and method provide a virtually seamless transaction between the participant and the service provider. Compliance is accomplished through the creation of a sponsor shadow account that mirrors each sponsor's group account. Transactions are posted to the sponsor shadow account pending adjudication. Upon approval as a qualified expense, the transaction amount will be removed from the sponsor shadow account and posted to the individual participant's FSA. In this way, non-qualified expenses should never be posted to the participant's FSA, thereby substantially eliminating the potential risks and penalty for both plan sponsors and plan participants.

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